DOMESTIC REVENUE MOBILIZATION FOR DEVELOPMENT ACTIVITY QUARTERLY REPORT

2ND Quarter: January 1, 2021 to March 31, 2021

Contract Number: 720OAA18D00014
Activity Start Date and End Date: January 21, 2020 to January 20, 2025
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ACRONYMS AND ABBREVIATIONS

AAU	Action Aid Uganda
ACODE	Advocates Coalition for Development and Environment
AMELP	Activity Monitoring, Evaluation and Learning Plan
BEPS	Base Erosion and Profit Shifting
CG	Commissioner General
CSBAG	Civil Society Budget Advocacy Group
CSCO	Civil Society Coalition on Oil and Gas
DFID	U.K. Department for International Development
DRM	Domestic Revenue Mobilization
DRM4D	Domestic Revenue Mobilization for Development
DRMS	Domestic Resource Mobilization Strategy
DRUM	Domestic Revenue Mobilization, Public Investment Management and Transparency
DTAs	Double Taxation Agreements
EITI	Extractive Industries Transparency Initiative
GoU	Government of Uganda
IMF	International Monetary Fund
KCCA	Kampala Capital City Authority
LGFC	Local Government Finance Commission
LGRA	Local Government Rating Act
LOE	Level of effort
MLHUD	Ministry of Lands Housing and Urban Development
MEL	Monitoring, Evaluation, and learning
MoFPED	Ministry of Finance, Planning, and Economic Development
MoLG	Ministry of Local Government
NCCI	National Chamber of Commerce and Industries
NIRA	National Identification and Registration Authority
PFM	Public Finance Management
PFM	Public Financial Management
PIRS	Performance Indicator Reference Sheet
PSFU	Private Sector Foundation Uganda
QASP	Quality Assurance Surveillance Plan
SEATINI	Southern and Eastern Africa Trade, Information and Negotiations Institute
STTA	Short Term Technical Assistance
TIN	Taxpayer Identification Number
UAAU	Urban Authorities Association of Uganda
UMA	Uganda Manufacturers Association
URA	Uganda Revenue Authority
USSIA	Uganda Small Scale Industries Association

1. ACTIVITY OVERVIEW

1.1. ACTIVITY OVERVIEW

Activity Name:	Domestic Revenue Mobilization for Development
Technical Office:	United States Agency for International Development
Activity Start Date and End Date:	January 21, 2020 to January 20, 2025
Name of Prime Implementing Partner:	Nathan Associates, Inc.
Contract Number:	Contract No. 720OAA18D00014 Task Order No. 72061720F00002
Name of Sub-awardees	Cardno Emerging Markets USA, Ltd International Bureau for Fiscal Documentation
Key Counterpart Organizations:	Uganda Revenue Authority Ministry of Finance, Planning, and Economic Development Ministry of Local Government
Geographic Coverage (districts):	Uganda
Change in Districts	
Reporting Period:	January 1, 2021 to March 31, 2021
Chief of Party	Kieran Holmes

1.2. ACTIVITY DESCRIPTION

The Uganda Domestic Revenue Mobilization for Development (DRM4D) Activity is a 5-year contract with the goal of supporting Uganda strengthen the tax culture, increasing voluntary compliance, and sustainably increasing domestic revenue mobilization (DRM), thereby creating the fiscal space for public spending and investments in service delivery in priority sectors such as health, education, and agriculture.

The project commenced on January 21, 2020 and runs through January 20, 2025. It is being implemented by Nathan Associates Inc. in partnership with its subcontractor, Cardno Emerging Markets.

The activity is comprised of three components, namely, Strengthening Tax Policy, Improving National and Sub-national Revenue Administration, and Enhancing Public-Private Dialogue. The support is being delivered to the Government of Uganda (GoU) through technical assistance, capacity building, and, as USAID deems appropriate, commodity support:

1.2.1. COMPONENT 1: TAX POLICY STRENGTHENED

This component is designed to equip the Ministry of Finance, Planning, and Economic Development (MoFPED), the Uganda Revenue Authority (URA), and other policymakers with the tools and skills to conduct policy analysis, evaluate, and communicate the impact of tax and non-tax revenue reforms, and take steps to operationalize the key policy tenets of the DRMS.

1.2.2. COMPONENT 2: TAX AND NON-TAX REVENUE ADMINISTRATION AND COMPLIANCE IMPROVED

The component is focused on enhancing voluntary taxpayer compliance by strengthening taxpayer education, registration, data analysis and arrears management. The other areas of focus include expanding support to new areas to address emerging compliance risks and operationalize the key administrative tenets of the DRMS. At the sub-national level, the focus is on identification of options for tax and nontax revenue mobilization for a selected number of local governments.

1.2.3. COMPONENT 3: PUBLIC-PRIVATE DIALOGUE ENHANCED

The component is designed to build capacity within the private sector and civil society to participate in and influence tax policy reforms and contribute to an informed dialogue on taxation. DRM4D will ensure that public input informs decision making on DRM-related reforms, in particular advocacy for increased investment in service delivery and, of course, for increased utilization of government revenues in social expenditure. The activity strategically combines grants and technical assistance to achieve activity objectives.

2. ACTIVITY IMPLEMENTATION PROGRESS

2.1. KEY ACHIEVEMENTS

During the reporting period, DRM4D remained focused on the two-pronged approach of boosting short term revenue via engagements with URA, MoFPED and MoLG, whilst simultaneously striving to advance the longer-term tax policy and revenue administration objectives that are prerequisites for increasing the tax to GDP ratio within the period of performance of the DRM4D Activity.

DRM4D completed three contextual studies, namely the baseline study, the Political Economy Analysis (PEA) and the Gender Youth and Social Inclusion (GYSI) study. These were carried out as part of USAID specific task order requirements for the project, but most importantly, the findings from these studies provide a very useful background and context that informs our approach to the rest of the interventions. Several activities are taking place under each component and a few have been completed.

Under Component 1, DRM4D continued to work with counterparts in MoFPED on the reform of the primary tax laws, the DTA framework, the excise, environmental and gaming tax regime, as well as the tax policy training program. The diagnostic review and rewrite of the VAT Act was completed and a draft of a new VAT law together with explanatory notes was submitted to MOFPED for discussion. The Double Taxation Agreement (DTA) consultant completed the review of the Uganda model double taxation agreement and updated it to reflect current developments in the OECD's Base Erosion and Profit Shifting (BEPS) arena. As regards to capacity development, module one of the tax policy training program was completed and was attended by 42 F (19) and M (23) government officials.

Under Component 2, DRM4D undertook a comprehensive review of the URA's HR organizational structure, policies, procedures, and integrity reform drive. DRM4D also conducted an audit of URA's IT systems, and various activities for the strengthening of URA's communications strategy, debt recovery and debt management and VAT field audits. DRM4D also worked with the URA's Learning and Development division to scope the level of capacity building requirements needed by the institution and to source support for bolstering their tax curriculum, the review of training materials and the eventual provision of training for the URA staff. The Activity connected URA to International Bureau of Fiscal Documentation (IBFD) and discussions were progressed around these issues. The actual training is expected to start in early July 2021. In addition, the Activity facilitated fruitful engagements with the Irish Revenue Commissioners for support in the areas of improving the tax register and in capacity building.

The Activity's interventions intended to boost Local Government (LG) revenue included engagements and guidance to selected LGs on key activities that can generate quick revenue wins, preparation of a local government revenue booklet to be used as a tax education tool, and activities in preparation for digitization of revenue registers for eventual migration to IRAS.

Under Component 3, DRM4D conducted engagements with both the private sector and civil society. These include SEATINI, Uganda Manufacturers Association, Private Sector Foundation Uganda, the Coalition for Oil and Gas in Uganda (CSCO), RippleNami and others. Both the private sector associations and civil society are keen to participate in the ongoing preparation of the new primary tax laws. Preliminary submissions were made that MoFPED, and the legal drafter will consider in the final drafts. DRM4D is organizing a 10-day training session for a civil society association (Tax Justice Alliance) and for the Private Sector Foundation that is intended to strengthen their capacity to engage in dialogue on tax policy issues. This training is scheduled to take place in the next quarter. The Activity is also in

the final stages of awarding grants to qualifying civil society/private sector organizations as part of our mandate to advance the revenue mobilization agenda.

2.2. COMPONENT 1 – TAX POLICY STRENGTHENED

2.2.1. Support GOU to draft legislation.

The legal adviser completed the VAT law and submitted the draft of the rewritten VAT law with accompanying explanatory notes to MoFPED. It had been anticipated that the draft law could be enacted in the 2021 financial year, but this was not possible because of the process of consultations that this draft law has to go through and the changeover from the 10th to the 11th Parliament. DRM4D will play a critical role in the next quarter to ensure that consultative discussions are successfully conducted.

Work on the income tax law rewrite is ongoing and will be completed early in the next quarter. Given that the income tax law is more complex than the VAT law, it has taken a bit more time than originally anticipated. When the draft of the new law is produced in June, it will also be subjected to a consultative process involving key stakeholders in Government, the private sector, and civil society.

Following the legal review and enactment of new primary tax laws, the legal drafter will then embark on reviewing and rewriting of the Tax Procedures Code Act, which is also expected to be completed by the end of this year.

2.2.2. Support GOU to review and strengthen the DTA framework

The Double Taxation Agreements (DTA) adviser reviewed the Government of Uganda double taxation treaty policy, and the operational treaties (including the current proposed Ugandan Model). He then prepared an updated Model Treaty that incorporates current developments in international taxation and BEPS issues as well as other proposals from African approaches. The Adviser is working on a comprehensive General Commentary highlighting the proposed changes with some explanations which will be discussed with MoFPED.

2.2.3. Tax policy analysis training

Tax policy training for tax officials commenced during this quarter, with the rollout of module 1.1 of the course. Module 1.1 is the foundation module and mainly provides the tax policy context by highlighting basic principles in tax policy formulation, the economics of taxation and the basic tenets of a good tax system and its interactions with society. The course, conducted by IBFD, has three modules and is expected to run intermittently until October 2022. The course drew participants from MoFPED, URA, Parliament of Uganda, Tax Appeals Tribunal, and two representatives from the private sector (one from private sector Foundation and the other from Uganda extractive industries transparency initiative). In total 46 officials participated in the training and they all completed the module, although 4 did not sit for the exam because of their engagement with Parliament during exam time. The 42 who sat the exams all passed, 19 of which were female and 23 were male. Feedback from participants shows that the course was very helpful and relevant to their work. The mode of delivery of the training was mainly online but delivered in an organized classroom setting and supervised by DRM4D. The program was financed in partnership with the Resource Enhancement & Accountability Program (REAP), who agreed to provide support with meeting the cost of the venue and meals. The next module of the course will be conducted in the next quarter.

2.2.4. Excise and Environment Tax

During the period, progress on the excise duty policy intervention at MoFPED was greatly slowed down, following the early exit of the consultant who had been engaged to review and enhance the excise duty, environmental tax and gaming regime in Uganda. The consultant notified us about his exit mid-way through this quarter. DRM4D has been in discussions with two potential replacement excise policy advisers who will be referred to MoFPED for evaluation in Q3. DRM4D actively engaged with counterparts at MoFPED regarding the consultant's earlier excise proposals and the draft tax amendment bill for Fiscal Year 21/22 included many of these proposals including taxing plastic containers, opaque beer, and other excisable items.

2.3. COMPONENT 2 – TAX AND NON-TAX REVENUE ADMINISTRATION AND COMPLIANCE IMPROVED

2.3.1. Support URA to review its Organizational Structure and Modernize its HR policies

During the quarter, the Human Resources Management Advisory Team (HRMAT) interacted with the URA's Corporate Change Management (CCM) Team and the URA's Comprehensive Integrity Strategy (CIS) Team to explore ways of harmonizing activities and bringing the CCM and the CIS teams closer together as both activities relate directly to staff. The CCM team was tasked with developing the change management business model and strategy and the CIS team to promote the CG's Integrity Drive. A joint meeting between the HRMAT, CCM and CIS teams was conducted, and it was planned that the CCM and CIS teams would come together in early April in order to provide a joint recommendation to the CG in advance of the pending URA management retreat. The integrity strategy will be presented to URA's expanded MEC during the forthcoming retreat and all MEC members will be obliged to sign an integrity pledge that will be publicly broadcast.

The HRMAT updated the Commissioner General (CG) on the HRMAT's Phase I assessment activities; the preliminary observations and challenges; the proposed URA Culture Accountability Structure; proposed Key Culture Communication Messages and his requested staff budget recommendations. The CG agreed to review the provided presentation and discuss the proposed URA Culture Accountability Structure with the COP and select URA staff to respond to the proposal to harmonize URA's "integrity/change/culture" initiatives.

URA organized a CIS Planning Retreat from March 12 – 20, 2021 to review and analyze its collected survey data and to develop the integrity strategy. DRM4D's Chief of Party (COP) and the Communications Adviser attended the retreat and participated in the strategy discussions. All findings and the CIS recommendations were then presented to URA's Board of Directors (BoD) on March 30, 2021, and DRM4D provided substantial input into the Board briefing documentation. The BoD approved the Integrity Strategy in principle, subject to receiving additional information in certain areas.

The HRMAT reached out to Her Majesty's Revenue and Customs (HMRC) to confirm the planned conclusion date of their support to the URA on the Competency Framework (CF), a key document for implementing culture change at URA. HMRC indicated that the Core and Leadership CFs had been drafted and their current focus was the development of the Technical CF. HMRC will be contacted once the HRMAT has clarity on Phase II so that the HRMAT, HMRC and URA can reach agreement on how they will best collaborate on the implementation of URA's CF. Phase II will focus on the modernization of the HR function, the upskilling of the HR department, the introduction and institutionalization of improved HRM policies, procedures and practices and a review of the URA's rewards structure.

At the behest of the CG, the COP briefed the URA Management Executive Committee on the Organizational Structure Adviser's recommendations and fielded questions from the members. At the conclusion of this meeting the CG announced that he would personally lead all future discussion on the report, which was circulated in full to MEC members. A detailed discussion on the report will take place at the next MEC meeting following the planned URA retreat in April.

The HRMAT was provided with a copy of DRM4D's Gender, Youth and Social Inclusion (GYSI) analysis and HRMAT reviewed the report for implications for URA's culture and HRM strategy (e.g. sourcing, recruiting, hiring, career development). The HRMAT included information from the GYSI report in its assessment report. The first draft of the HRMAT Assessment Report, minus the Executive Summary and Appendix, was sent to the COP on March 31, 2021. The HRMAT then began gathering the documents for the report Appendix.

2.3.2. Support URA to strengthen communications.

The Communications Advisor submitted his Inception Report, which was shared also with USAID and the URA's Public and Corporate Affairs (PCA) Division in the Commissioner General's Office and the CG himself. During the quarter, the Advisor worked closely with the Acting Assistant Commissioner, PCA, and members of his management team to deliver results.

The results include:

- PCA approval of the Communications Policy with implications for internal communications

- PCA approval of Stakeholder Engagement Strategy plus the provision of support concerning post-MEC approval roll-out of the Strategy

- Memo submitted on areas of Communications Strategy requiring further work and development

- Development and adoption of Weekly Reporting template for supervisors reporting into PCA Manager; this has been designed to make apparent the links between what is being done and how PCA activities support the delivery of corporate and strategic goals; the new report will also feed into the quarterly M&E Report; consideration is being given to the new report being adopted elsewhere in URA

- Development and adoption of Forward Planning Grid to promote collaboration, accountability, and leadership across PCA and strengthen the linkages between PCA work and constituent parts of URA served by PCA; consideration is being given to the new report being adopted elsewhere in URA including the CG's office

- Development and adoption of a new Internal Communications tool as part of wider process aimed at streamlining and making more effective internal communications practices; pending the success of the new tool, there is potential to develop same tool to regularize the dissemination of materials to stakeholders

- Participation on URA's Integrity Retreat, along with the Chief of Party, with input into the Integrity Strategy and the shape & form of communications support required to aid delivery

- The development of a paper to support and shape the work of URATV

- Development of ideas around CG's first anniversary and utilizing this landmark & URA's 30th Anniversary to promote URA's corporate communications agenda & a reputation management program, CSR, Integrity and allied change management programs, the taxpayer appreciation season, budget breakfasts, anti-corruption day, etc.

- The development of a paper containing recommendations on how and why to re-align the structure and output of the Media & PR Unit

- The development and delivery of training and capacity building modules including media training utilizing the URATV studios

During the coming quarter, the Advisor will continue to build on all the above initiatives and support the team to develop the capacity to deliver existing programs and, notably those associated with the CG's first anniversary and URA's 30th anniversary.

Having observed the PCA team in operation, there will be a particular emphasis on building internal and external collaboration into the development and delivery of its programs; to becoming more focused on serving the needs of constituent parts of URA, including the CG's office; and to have a greater focus on how the team's work can more effectively serve the public's interests by understanding and delivering on their communication needs.

Work will be required to promote the URA Integrity program and other Change initiatives whose development is underway; likewise, the new Call Centre and the Stakeholder Engagement Strategy as their work comes on tap. Media training will be rolled-out to all URA staff likely to appear on TV or radio in the name of the organization.

It is anticipated that the Assistant Commissioner will be appointed, the new incumbent possibly requiring the support of the Communications Consultant.

2.3.3. Support in strengthening debt management at URA.

Since 2018, the URA has moved to adopt several of the recommendations put forward in the DRM4D Pilot reports. This is a good development that will require adjustment in the Activity's work plan but will ultimately see the DRM4D Activity move ahead faster and realize improved revenue recovery sooner.

The Debt Management Adviser has been receiving excellent cooperation from the Commissioner, Domestic Tax, the Assistant Commissioner, and the Managers. This has led to the development of schedules for training in the basics such as interview skills, ability to pay, negotiations and dealing with difficult clients.

The Taxpayer Registration division has launched a campaign to increase the number of registrants, and they have also begun to use technology developed recently to record and submit suspected non-complying businesses to the URA database for further action. With support from the adviser, the registration process has now been significantly modified to ensure complete information is recorded before a Taxpayer Identification Number (TIN) is granted.

The Debt Management Adviser worked closely with the Learning and Development Division (L&D) and has begun work on several initiatives that will improve the quality and timeliness of training for all divisions. The L&D team are displaying a keen desire to coordinate and improve the quality of training and materials for the URA, and this works well with plans to develop options for training with them.

The Adviser requested reports on the outstanding Government debt cases where other government departments have failed to remit taxes withheld. A proposal to begin the resolution of this ongoing issue will be forthcoming in the next quarter. The managers of the Domestic Tax Department have made requests to provide specialized training to their managers in areas like performance evaluation, delivering feedback, mentoring and other soft skills, which are planned for discussion with L&D in April.

In the Rental Tax Unit, significant headway is being made in registering non-compliant landlords and the Debt Management Adviser has delivered appropriate training for officers and managers. The Rental Tax Unit requires further support in the areas of investigation and enforcement of non-compliance and the Debt Management Adviser will focus on delivering this training over the next quarter. There is a device and application currently used by the taxpayer registration division that would assist the field operators in their tasks and which can be easily modified to manage rental tax data. The Debt Management Adviser will be following up on this in the coming quarter.

RippleNami (RN), a US company, is working to assist the URA develop a comprehensive taxpayer database in the rental income sector using blockchain technology, and DRM4D has an excellent working relationship with the company. RN is under contract to GoU to utilize blockchain technology to identify rental properties and landlords whereas DRM4D is working with URA to ensure the information provided is effectively translated into tax assessments and improved revenue collection. RN has advised DRM4D that its biggest achievements so far include producing the System/Application Architecture and Infrastructure Architecture documentation, working with URA IT to establish the development and production environments in the URA Data Centre, installing the base software configurations, and working with the various MDAs regarding data specifications. To date, RN says it has secured 100% bulk data ingestion from URA, KCCA, URSB and NWSC.

Ministry of Lands, Housing and Urban development (MLHUD) and National identification and Registration Authority (NIRA) are the two remaining key MDA datasets that are currently outstanding. RN's goal in the coming quarter is to secure information from these datasets for full identity resolution capabilities. RN are in the process of building the data analytics and identity resolution based on the data already captured, which they say is already sufficient to produce very valuable insights for the URA at this current stage.

The Local Government (LG) data received by RN has so far been disappointing and the company is currently looking for ways that they can partner with the LGs. DRM4D is liaising closely with the company and our LG partners to see how the Activity can best facilitate this interaction over the coming quarter. The Activity is presently engaging with RN to review the rCAPTURE application (the mobile app used for field data collection) for modifications to see how it can be used at the LG level.

For clarity there is no contractual or financial relationship between RN and DRM4D other than a shared interest in improving URA's revenue collections from landlords. The text above is provided for information purposes only.

2.3.4. Support in strengthening VAT field audits.

The VAT Field-Audit Advisor intervention aims to bolster the URA field-audit function for VAT, that has lapsed in recent years. The context is that audit, and especially field-audit, is widely recognized as the cornerstone of voluntary tax compliance for self-assessed taxes as taxpayers must believe that the credibility of their declarations will be checked at some point. The ongoing introduction of the relatively new Electronic Fiscal Register Invoicing System (EFRIS) has the potential to fundamentally shift the whole audit effort in the medium term, retaining field visits only for purposes of spot-checking if the taxpayer is fully linked to EFRIS or not.

A recent positive development is that URA has introduced increased field-audit capacity through a new Central Audit Office (CAO), the Medium Taxpayer Office (MTO) and in the Refunds Unit. In consultations with URA's Domestic Tax department management, it was agreed to position the VAT field audit advisor in the Refunds Unit to provide support to the teams in mitigating the huge revenue risks and leakages associated with fraudulent refunds. This unit, not only carries out field-audits on

businesses claiming VAT and Withholding-Tax refunds, but is also increasingly engaged in trying to test the wider credibility of sales declarations for VAT.

During the quarter, the advisor provided actual hands-on support to two teams in the unit. The hands-on support covered the entire audit value chain, that eventually culminates in an audit decision (or assessment), and this covered among others, audit risk profiling and audit case selection, audit case preparation and planning, guiding the team who would go for the audit visit, implementation of audit tests (including interviewing, observation and other data gathering techniques, audit documentation, data analysis and interpretation of the audit information, and finally audit report writing. One of the three cases started was that of a mattress manufacturer who had a VAT offset claim in his tax returns. When the audit was completed, the findings indicate under-declared tax amounting to UGX 2bn. An assessment for this will be issued. The field audit advisor used this case to demonstrate to the rest of the refund unit (over 30 staff) how audit techniques can be employed to unearth tax under-declarations. Infact the case further revealed the extent of wider non-compliance throughout the entire mattress value chain as many of the customers of the manufacturer also indicated significant non-compliance.

The advisor further supported the URA audit function by:

- Developing a "VAT Credibility Snapshot Template" as an initial profiling tool, that summarizes the information held in the "Compliance Checklist" in E-Hub, to provide a simple, visible indicator for credibility risks.

- Designed and developed power-point training on "credibility" including case studies on core approaches to manufacturers and retailers which can be formalized into a standard module for inclusion in the Learning and Development intermediate VAT training package, to be delivered by URA personnel.

At the request of Unit Managers, the Advisor further provided short briefing notes on:

(i) Penalties and Interest that are too high and uncollectable.
(ii) Production, handling, archiving and dissemination of Public Notices that impact audit actions.
(iii) Potential conflict of interest and other risks in the URA.
(iv) A lack of knowledge by officers of their legal powers and the lack of a written authority supporting the powers of entry and inspection for field-auditors.
(v) Clear criteria for the referral of cases by auditors to the Tax Investigation Division and Revenue Expansion Unit.

The Advisor continues to gather materials and information to update the Audit Manual component of the Compliance Handbook that is "owned" by the Business Policy Unit.

The Advisor will work remotely for one month from the end of April. During this time, it is planned the Advisor will work on the Audit Manual, supervise oversight practices and produce an "emerging findings" report of issues for consideration by the CDT. Upon his return to Uganda, it is planned that the Advisor will continue to support the Refunds Unit for one month then proceed to another unit. This has significant long-term revenue potential, and the Advisor would be well placed to provide operational support and training.

2.3.5. Support in excise duty administration and management

Management of Excise duty is one area neglected by URA in the past, yet it has significant revenue potential. There is currently no dedicated unit that handles excise duty and there has been very limited excise duty training in the past. Returns submitted by excise taxpayers are rarely vetted which creates a high risk of non-compliance. Interestingly, URA has implemented tax stamps on selected excisable

products, which is a good step in the right direction especially for implementation of a track and trace system. Such a system however needs to be complemented by a strong monitoring and enforcement program for it to yield the required results.

Considering these challenges, DRM4D held discussions with the Commissioner Domestic tax Department and the Assistant Commissioner Compliance management, to chart out a plan on how excise duty management at URA can be strengthened. The most urgent need was capacity building for URA and advice on the best systems and structure to be put in place.

DRM4D identified and engaged an excise tax administration consultant. After discussion with DRM4D, URA appointed a team of 12 staff to work with the consultant and it is expected that this team will eventually be turned into the excise tax unit at URA. The consultant will start work early in the next quarter and it is expected that her support to URA will yield substantial revenues as URA begins to implement strong controls and better-structured enforcement mechanisms.

2.3.6. Support for URA's E-tax replacement

In Q1, DRM4D provided an IT expert to conduct an audit of URA's IT systems. The report was well received by the Commissioner General who requested additional support from the adviser in Q2, particularly with regard to the replacement of URA's E-tax system, the need for which had been identified by the adviser as a significant potential threat to URA's operations. DRM4D responded to the CG's request and provided the adviser support to assist URA in quality assuring the Expressions of Interest (EoIs) for a replacement system. So far, the adviser has reviewed the top 6 EoIs and, during Q3, he will further assist the URA to extract the best ideas from the submissions and produce a detailed Request for Proposals (RFP) document. The World Bank has provided URA with some small funding to conduct a Business Process Reengineering (BPR) exercise, which is an essential component of an RFP. DRM4D is working closely with URA to support the BPR process.

2.3.7. Support to URA's Learning and Development division

The Activity worked with the URA Learning and Development division to scope the level of capacity building requirements needed by the institution and to source support for strengthening their tax curriculum, review of training materials and eventual actual provision of training for the URA staff. Discussions were progressed around the design of a training program for the URA. The training is expected to start in the last quarter of the fiscal year.

DRM4D also considered more options available to leverage other development partner support towards URAs learning and development agenda. The activity spearheaded fruitful engagements with the Embassy of Ireland and the Irish Revenue Commissioners. This helped to secure good linkages between them and Uganda Revenue Authority. The Irish support to URA will be in the broad areas of enhancing the tax register and supporting the learning and Development division in URA. The Commissioner General (CG) has appointed two working groups within URA to work closely with their Irish counterparts to prepare a project plan that will be agreed at senior level by both agencies. The Irish Revenue Commissioners are setting up similar working groups and have stated they are confident of a positive working relationship between the two tax administrations.

2.3.8. Revenue performance at National level

URA's Revenue target for 2020/21 is UGX 21,800 billion. DRM4D supported URA in many ways to achieve its revenue target of 21,800 billion for FY 2020/21. As at end of DRM4D's YR2 Q2, URA had already collected a total of UGX 13,953.05 billion (July 2020 – March 2021). This reflects 64%

achievements against the set target for the period. However, specific to DRM4D and in line with USAID reporting calendar, by the end of Y2Q2 reporting period (Oct – March), a total of UGX 9,883.030 billion was collected over the first two quarters of the US fiscal year.

2.3.9. Consult key stakeholders.

Whereas leveraging resources from other development partners is a daunting task, the DRM4D continued to seek partnerships through the REAP, MoLG and Local Government Finance Commission (LGFC) particularly on digitization of revenue administration systems. DRM4D has provided briefs during the many discussions with development partner work groups (DPWGs) underlining key involvement in local governments. The Permanent Secretary of the Ministry of Local Government is pleased with initiatives suggested by DRM4D, especially that at least 10 cities will be given support. The interventions in process include (1) facilitating stakeholder dialogue through granting CSOs, (2) providing equipment for updating of registers and migration to IRAS, (3) discussions on strategies for improvement in tax and non-tax revenues, (4) production of tax education materials, and (5) technical assistance to support capacity building training and induction of newly elected political leaders/councilors at city level. This is a maximum of 16 councilors in the business committee responsible for local government revenue mobilization and budget allocation. The MoLG and LGFC appreciated initiatives to fast-track activities to support a comprehensive roll out of digitization.

The Activity held discussions with the Director Revenues at LGFC and the Commissioner, Urban Administration, at the MoLG on the DRM4D proposal to ring fence at least 50% of World Bank-USAID Institutional Capacity Strengthening Grants to support the update of property valuation rolls and other activities to strengthen data collection and digitizing revenue register data bases. MoLG, LGFC and REAP all support the proposal subject to further discussions. The target cities have a property tax revenue potential of at least UGX 26 billion (USD 7.3 million) by 2024/25 up from the current UGX 6 billion (USD 1.7 million). Sustained support for the update of property valuation rolls is therefore critical for sustainable service delivery. DRM4D will follow up on the leveraging proposal with other development partners. Additionally, DRM4D will provide indicative technical support activity around digitization, stakeholders' engagement, and coordination activity through the Chief Government Valuer and USMID.

Revenue performance information through the IT systems and other remote contacts with cities is still a challenge because of the different revenue administration systems in use by local government. However, DRM4D is in contact with the Accountant General (AG) to provide validation of data received directly from the local governments.

2.3.10. Increase property tax (and other non-tax revenues) coverage and collection

The DRM4D team identified that the property valuation process has been costly and time consuming because of the valuation methods which require each property to be individually valued. The DRM4D conducted consultations with the International Centre for Tax and Development (ICTD) and the African Tax Administration Initiatives to explore simplified property valuation methods. DRM4D continued to engage with the Ministry of Local Government (MoLG) to influence the Ministry to instruct local governments to use "points based" mass valuation methods as has been successfully used in Freetown, Sierra Leone. DRM4D believes that simplified valuation will facilitate faster and more cost-effective property valuation for sustainable revenue growth. Single Property valuation may continue to be used in cases of unique and high value property such as industrial buildings and shopping complexes where mass valuation cannot be easily employed. These engagements will continue with the aim of receiving endorsement from the Permanent Secretary, MoLG and the Chief Government Valuer who will then issue a circular standing instruction to direct implementation. DRM4D advertised for the

supply of data collection equipment to support updates and validation of property registers. The biggest cost driver influencing valuation is data collection, so by providing the data collection equipment and by providing the STTA for data collection and the updates of registries, we shall have delivered significant cost reductions in this area. This will likely permit a greater number of valuations within the existing budgets.

DRM4D concluded that low compliance in payment of property tax is partly attributable to low access to taxpayer awareness information linking tax payment to service delivery. Taxpayer education booklet on property tax was designed and made ready for publication. The booklet links property tax payment to services delivery and encourages the taxpayer to be interested in how revenues are allocated to services such as sanitation, street lighting, health, and education. DRM4D intends to distribute at least 5,000 copies in hard copy and display material on city website pages to support maximum engagement and understanding of property tax.

2.3.11. Support capacity building and performance improvement initiatives

The Scope of Work for STTA for training and development of the Domestic Revenue Improvement Plan (DRIP) was approved and headhunting for recruitment of the relevant STTA started. The STTA will work with revenue staff within cities to review current revenue mobilization strategies, develop an improvement plan, and a monitoring framework. The DRIP will inform the budgeting process for FY 2022/23 which starts in September 2021. The monitoring framework will serve as a criterion against which future performance will be measured.

Budget request to support conferences and other training events was completed and submitted for approval. The key activities envisaged are (1) national stakeholders conference for consensus building and implementation of the local government revenue mobilization policies, legal framework, and strategy; (2) City hall-based training events for LG revenue staff on property valuation, development of revenue improvement plans, revenue monitoring framework, fiscal social service compacts and induction for new political and appointed officials.

2.3.12. Support selected cities to create digital records of the local taxpayer base

Revenue registers are a critical success factor in overall improvement in revenue administration and increasing revenue volumes. Five STTAs have been selected for award of assignments to collect taxpayer data, digitize revenue registers, and train staff in operation of data base systems.

DRM4D advocated for inclusion of cities in the first phase of the roll out of IRAS and other related support with the LGFC. The IRAS roll out which started on February 2021 included five DRM4D cities; Arua, Hoima, Mbarara, Mbale and Soroti. DRM4D will supplement the roll out by initially supporting updates of revenue registers and uploading data onto the Local Government Data Base Management System (LGDBMS), installation of enabling applications and training users.

2.3.13. Provide logistical support and develop an operations application to work with electronic valuations and registers

The Activity obtained from cities the needs and specifications of equipment required support digitization and updating of registries based on which Request for proposals (RFPs) was made. The RFPs for award of contracts to deliver the requisite equipment have been evaluated and the results of the evaluation will be forwarded to USAID for approval in the next quarter. Provision of equipment will enhance LG revenue management relating to processing data on assessments, billing, collection, and accountability reporting.

2.3.14. Revenue performance at subnational level

At subnational level, the average local revenue collected as a percentage of the target for selected Local Government (cities) has made headway in reaching its target for the period. In Year 2, the Activity targeted to work with the Local Government (the 10 new cities) to be able to generate UGX 2.004 billion from local source revenue. By the end of March 2021, a total of UGX 1.761 billion (Q1+Q2) had been raised resulting in a 87.8% achievement against the set target for the year. This revenue can be used to finance local priorities in the respective contributing cities.

2.4. COMPONENT 3 – PUBLIC-PRIVATE DIALOGUE ENHANCED

2.4.1. Participation of private sector/civil society in the legal redraft

Five Non-State Actors (NSAs) were approached and encouraged to participate in the ongoing reviewing of the income tax an VAT laws. These included Uganda Manufacturers Association (UMA), Institute for Certified Public Accounts of Uganda (ICPAU), Uganda Law Society (ULS), Private Sector Foundation of Uganda (PSFU) and SEATINI that represented Tax Justice Alliance a loose coalition of CSOs that promote fairness in taxation. Out of the five NSA that were requested to participate in the process, three NSAs UMA, ICPAU and ULS submitted their proposals for consideration into the ongoing reviewing of the tax laws that were passed on to the MoFPED and the consultant for consideration. The remaining two organizations, SEATINI and PSFU sought to be supported by DRM4D to convene their stakeholders to discuss, compile and submit their proposals for consideration but that is yet to happen.

2.4.2. Facilitate sector meetings for URA to improve its relations with clients

DRM4D continues supporting URA to finalize its Stakeholders Engagement Strategy. The team has had and continues having meetings with the URA team under the Public and Corporate Affairs Division, who is spearheading the completion of the strategy by reviewing and updating the draft as necessary. It is anticipated that the completion and adoption of the engagement strategy will lay a firm basis and framework to improve engagement between URA and other stakeholders, especially the NSAs that have expressed their desire to engage with the URA.

2.4.3. Grants management for mobilization of revenues

DRM4D issued an EOI notice for grants in December 2020 that attracted 68 responses, out of which 31 were shortlisted and evaluated. Out of the 31 shortlisted, a total of 15 applicants were further shortlisted to be issued with CFP. All fifteen grantees responded positively and filed their project proposals, which are currently being reviewed by the technical evaluation committee. The fifteen shortlisted applicants included CSOs, business associations, and private companies. The process of selection is expected to conclude in May 2021, whereafter successful applicants will be awarded grants to execute various interventions promoting DRM.

Through the provision of grants, DRM4D anticipates it will be better able to support advocacy for issues of mutual interests such improving transparency in management of revenues from extractives; improved budget allocation towards agriculture, education, and health sectors; and a fair tax system and minimizing tax leakages. The provision of grants is expected to be used for building capacity of NSAs in tax policy analysis, advocacy, engagement, and budget tracking.

2.5. CROSS-CUTTING ACTIVITIES

2.5.1. Gender, Youth and Social Inclusion (GYSI) Analysis

The GYSI report was finalized and circulated to counterparts, advisors and all entities remotely related to DRM4D work. The DRM4D team is very cognizant of the issues arising from the recommendations such as marginalization of gender, youth and other socially disadvantaged groups and have included them in our approaches. The team also made GYSI a key area that successful bidders for grants under contract have to address. It is embedded in all bid documentation and successful grantees are expected to include it in the implementation activities.

After receiving a copy of the GYSI report, MoFPED requested a presentation, DRM4D is now scheduled to make this presentation to MoFPED's Tax Policy Department in the coming quarter.

2.5.2. The Baseline Report

During the reporting quarter, DRM4D finalized the Baseline Report that is designed to benchmark the key indicators under the DRM4D Activity. The baseline data and information produced will guide the Activity in setting targets for the different indicators as tabulated in the Activity Monitoring, Evaluation and Learning Plan (AMELP).

Recommendations from the analysis suggest that designing a strong revenue system that responds adequately to a country's social and economic needs requires that proposals for tax reform be carefully assessed, quantitatively analyzed, and thoroughly debated. This in turn, depends on a tax policy unit capable of guiding and informing the debate, with access to the best available data and evidence. The baseline report will be backed up by findings from the Political Economy Analysis (PEA) and Gender Youth and Social Inclusion (GYSI) report produced within the reporting year.

2.5.3. Political Economy Analysis (PEA)

The political economy analysis report was completed during the quarter and was shared with USAID. USAID liked the report, the key findings, and recommendation that involved the creation of a diplomatic group of donors interested in domestic revenue mobilization to act as a "Friends of URA" group. It was recommended that USAID could position itself as the lead donor and champion of tax reform in Uganda, and the diplomatic group could be chaired by the CG of URA. The strategy would involve assisting Civil Society to build support for revenue mobilization and to also build support within parliamentary committees.

In the next quarter, DRM4D will advance the PEA work by developing a strategy for implementing the recommendations from the PEA report, which will involve the development of a workplan and budget to operationalize the recommendations.

3. STRATEGIC AND THEMATIC LEARNING

3.1. STRATEGIC & THEMATIC LEARNING

Throughout this quarter, the Activity continued to interact with counterparts at MoFPED, URA and MoLG to agree on workable solutions to URA's and Local Governments' primary revenue administration constraints and to advance the DRMS agenda. The activity also continued to leverage relationships with partners in implementing project activities. Some of the areas of leverage and collaboration that DRM4D was involved in include, collaboration with REAP in the Tax policy training activity, collaboration with RippleNami on rental income taxation, collaboration with the Irish Revenue Commissioners on capacity building, collaboration with the Netherlands Tax administration on training, collaboration with the UK's HMRC on the draft HR Competency Framework, and collaboration with CSSA (Civil Society Strengthening Activity) and other USAID projects like Management Sciences for Health (MSH) on shared activities. DRM4D also supported URA to coordinate donor engagements and during the period URA held two donor engagements. The Chief of Party made presentations in both development partner engagements. The Activity fully participated in activities of the other development partner forums including the PFM accountability cluster meetings, and LG PFM meetings. Collaborations engender greater coordination to the benefit of the beneficiaries and lead to shared implementations to eliminate duplication and an economic use of available resources.

In the spirit of continuous improvement, the Activity proposed to pick learning points in the course of all our interactions, and use the lessons learnt to strengthen our traction and speed up results. We learned to leverage available resources within the development partner space to be able to reach where we otherwise wouldn't be able to with our resources alone. One such case is the partnership with REAP in the Tax policy training, where they provided the venue and meals for participants while we provided the training fees to the consultant (IBFD).

Another key area of learning was around the wide opportunity available to us to leverage IT platforms and reach more people through online meetings than would have been possible through physical meetings. However, we also learned that online engagements cannot take the place of physical eye to eye meetings, as some issues do not get resolved unless there is physical follow up. Although online meetings serve well to supplement the physical engagements, they should not totally replace physical engagements. This invaluable lesson was learned during our interactions with URA, MoFPED and MOLG. Interventions moved faster when they are started with a physical meeting and then followed up with an appropriate mix of online and physically engagements.

Another important lesson that we knew earlier but which became more apparent in the same area of engagements is the need for an appropriate balance in engaging any organization. Both the topmost leadership and the lower cadres need to be engaged with an appropriate mix of focus and emphasis. If one is emphasized over the other, there will be delays in progress, mainly due to gaps in information and/or lack of ownership. With this is mind, our approach involves the COP's direct engagement with the topmost leadership, which sets the context for the other DRM4D team members and STTA to engage continuously with lower-level cadres. This enables the COP to continuously keep top leadership engaged and abreast on progress and key developments. This mix of top-down and bottom-up approach is critically important in ensuring success of interventions.

4. INCLUSIVE DEVELOPMENT

4.1. INCLUSIVE DEVELOPMENT

The GYSI report was finalized and circulated to all counterparts, advisors and all entities remotely related to DRM4D work. We are very much alive to the issues arising from the recommendations and have included them in our approaches, particularly with ensuring the new primary tax laws are drafted on a gender-neutral basis, existing exemptions on sanitary towels are carried over to the new laws and the new laws will include incentives for the employment of persons with disabilities. We also made GYSI a key area that successful bidders for grants on this project have to address. It is embedded in all bid documentation and successful grantees are expected to embed it in turn in their implementation activities.

5. KEY PRIORITIES FOR THE NEXT QUARTER INCLUDING UPCOMING EVENTS

5.1. KEY PRIORITIES FOR NEXT QUARTER

Component 1 – Tax Policy

Continue with work on advancing the primary tax laws, with particular focus on further refining the draft VAT law and commencing with the preparation of the Income Tax law. Advocate for the VAT amendment law to be enacted as a temporary measure in view of its revenue earning potential. Commence drafting a revised Tax Procedures Code Law.
Continue to review the suite of DTA agreements. Provide model DTA for Uganda and discuss with MoFPED. Assist MoFPED with DTA negotiations as required.
Continue with IBFD tax policy training at MoFPED.
Support MoFPED in excise tax policy strengthening by recruiting STTA in excise tax policy review. Conduct capacity building and develop further excise tax policy proposals for 21/22 budget. Link Excise Tax Policy Adviser with the Excise Tax Administration adviser support in URA.
Develop second phase for PEA study to include a timetable and work plan for potential entry points and influence opportunities, supporting a local actor to act as a game-maker and preparing audience specific messaging that will comprise events, study tours, press, radio and social media, personal relationships, and special interest groups amongst others.

Component 2.1 – National Tax Administration

Continue support for improved debt management, taxpayer registration, and compliance techniques
Continue support for VAT Field Audit capacity building, support for complex audit and for provision of industry experts to train URA auditors in understanding certain industries.
Finalize training program with URA and conclude BFD contract so that training is ready to start at URA at commencement of Q4.
Continue with improvement of URA communications and taxpayer education strategies, especially in support of the CG's integrity promotion strategies.
Provide technical support to URA to quality assure its evaluation of EoIs for replacement E-tax system, liaise with World Bank, particularly with regard to conduct of Business Process Reengineering Study. Assist URA to develop detailed technical specifications and a Request for Proposals document.

Continue to track URA's review of the Organizational Development Adviser's report and assist URA's MEC as necessary to support changes to URA's Board. Work with the CG to prepare any required legislative amendments to the URA law.
Work with HRMAT to produce their Assessment Report for review by the CG and MEC; produce agreed next phase work plan and budget and agree with URA and USAID. Commence next phase activities to review and revise all HR policies and procedures, advance the HR reform agenda, revise and strengthen the Code of Conduct, and commence a review of the URA's rewards structure.
Work with URA to create a dedicated unit for Excise Tax Administration and provide STTA to support the improved management of excise taxes.

Component 2.2 – Local Tax Administration

Conduct a national conference on improvements to Local Government revenues policy and administration, and discussions on possible alternate revenue options
Support digitization of revenue registers, training of users, and provision of related equipment to sustain data integrity and accountability reporting
Induction and capacity building awareness training for new political leaders in revenue mobilization
Recruitment of STTA for training to support induction and development of revenue improvement plans
Develop, design, print, and distribute 50,000 property tax education booklets to 10 cities to support tax compliance
Continue discussions on simplification of property valuation to enhance timely update of valuations rolls in a costs effective manner to increase sustainable revenue collection.
Continue discussions on design of a framework for setting fees and charges for non-tax revenue to promote equity in assessment and collection.

Component 3 – Public-Private Dialogue

Support finalizing selection and enrollment of grantees
Support capacity building initiatives for non-state actors in tax law review and reform process engagement
Support URA finalize and roll out the Tax Education Strategy and Stakeholders Engagement Strategy
Support non-state stakeholders' engagement with state actors
Support grantees to execute their proposed activities reflected in the project documents
Support DRM4D collaborations and synergizing efforts with other USAID funded initiatives/Activities
Support organizing meetings/workshops scheduled to take place in the quarter three

6. ANNEXES

ANNEX A: SUCCESS STORY

DRM4D Delivers Tax Policy Training to Ministry of Finance, Planning and Economic Development

The DRM4D Activity's brief is to improve the entire tax environment in Uganda. To achieve this the Activity undertook a strategy of combining long-term structural interventions combined with short-term revenue enhancing activities. The primary long term-intervention at the tax policy level was to commence the rewrite of the Income Tax and VAT laws. A first draft VAT law has already been prepared and a new Income Tax law is in preparation.

The Activity recognized that it would be necessary to quickly raise the level of tax policy knowledge amongst Ministry of Finance, Planning and Economic Development (MoFPED) and Uganda Revenue Authority (URA) personnel so that both institutions would be able to confidently engage with the legal drafter on the tax laws rewrite, as well as being better able to address the everyday tax policy issues that arise. An ambitious strategy for capacity building at both institutions was developed and this was supplemented with a separate intervention aimed at improving Uganda's network of double taxation agreements. DRM4D engaged the International Bureau of Fiscal Documentation, a world-renowned tax research and training institution based in the Netherlands, to design and deliver the training. Training at MoFPED commenced in early March 2021 by remote means. In the spirit of donor cooperation, the cost of the training venue, including meals and refreshments, was borne by Uganda's Resource Enhancement & Accountability Programme (REAP).

Module 1.1 was delivered in March and Module 1.2 is due to be delivered in April, with the remaining modules continuing through 2021 and into the 2022 calendar year. In total 46 Government of Uganda's Officials are being trained, including 10 from URA. One URA participant in Module 1.1 said "The training is so good. It has given us an in depth understanding of the foundations of Tax policy. It is very relevant not only for tax policy makers but also tax practitioners like myself. It has particularly eased my work of preparing tax interpretations and rulings."

A separate program of capacity building at URA is almost finalized and that training is planned to commence in early July 2021. The URA program will train about 50 personnel, including a cadre of trainers who will be expected to train others. This training will be markedly different from the tax policy training at MoFPED and will concentrate primarily on tax administration. As part of the URA capacity building strategy, discussions are being held to include the development of a training curricula at intermediate and advanced levels and provide training materials (URA has already commenced the development of the basic training course.)

This is the first time that capacity building in taxation to this extent has been developed for Uganda. A substantial number of personnel at both MoFPED and URA will receive extensive and high-level training and will be able to access extensive research materials as part of the programs.

A parallel intervention by DRM4D has sought to assist URA in reviewing its overall organizational structure. A key aspect of this review is to create better communication between URA and MoFPED and this training will assist both institutions to build an effective bridge in the areas of both tax policy and tax administration.

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Pull-Out Quote:

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"The training is so good. It has given us an in depth understanding of the foundations of Tax policy. It is very relevant not only for tax policy makers but also tax practitioners like myself. It has particularly eased my work of preparing tax interpretations and rulings." – Fredrick Kalyango, URA business policy division

Background Information:

The Domestic Resource Mobilization for Development (DRM4D) Activity is a five-year USAID funded project that is focused on three core objectives, strengthening tax policy, improving tax and non-tax revenue administration and compliance and enhancing public-private dialogue in Uganda. At the sub-national level, the project supports interventions aimed at expanding tax and non-tax revenue options for 8 selected local governments.